

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

FIRST-CLASS PACKAGE SERVICE (FCPS)
SERVICE STANDARD CHANGES, 2021

Docket No. N2021-2

**UNITED STATES POSTAL SERVICE REQUEST FOR AN ADVISORY
OPINION ON CHANGES IN THE NATURE OF POSTAL SERVICES**
(June 17, 2021)

In accordance with 39 U.S.C. § 3661, the United States Postal Service hereby requests that the Postal Regulatory Commission issue an advisory opinion regarding whether certain changes in the nature of postal services would conform to applicable policies of title 39, United States Code. Specifically, for the reasons discussed below and in the accompanying testimonies, the Postal Service proposes to revise the service standards for First-Class Package Service.

I. EFFECTIVE DATE, PRE-FILING CONFERENCE, AND WITNESSES

Section 3661(b) of title 39 requires the Postal Service to file its advisory opinion request “a reasonable time prior to the effective date” of the planned service changes. In its regulations, the Commission has established a 90-day standard for the timing of such request filings. 39 C.F.R. § 3020.112. The Postal Service plans to implement the service changes within the scope of this Request no earlier than October 1, 2021, which is more than 90 days after the date of this filing.

In accordance with 39 C.F.R. § 3020.111, the Postal Service has conducted a pre-filing conference. This conference occurred on June 8, 2021, from 1 pm to 2 pm EDT. Due to the current COVID-19 situation, the conference occurred virtually, rather than at a physical location. Participants attending that event raised a number of issues and questions, for which the Postal Service was able to furnish responses during the course of the meeting. The Postal Service certifies that it has made a good faith effort to address the matters raised that are germane to consideration of the proposal itself. Specifically, it is providing in USPS-LR-N2021-2/NP2 the list of origin/destination pairs with corresponding service standards under the planned revisions, as this was requested by one participant.

To support this request, the Postal Service is filing, as direct evidence, testimony by various witnesses, as discussed further below. In addition, the Postal Service identifies Sharon Owens, Vice President, Pricing and Costing, as an institutional witness who is capable of providing information relevant to the Postal Service's proposal that is not provided by other Postal Service witnesses. All of these witnesses will be available for the mandatory technical conference provided for in 39 C.F.R. § 3020.115.

II. DESCRIPTION OF THE PROPOSED CHANGES AND THEIR RATIONALE

A. Description of Changes

The Postal Service plans to revise the current service standards for First-Class Package Service (FCPS) in a manner that would “generally affect service

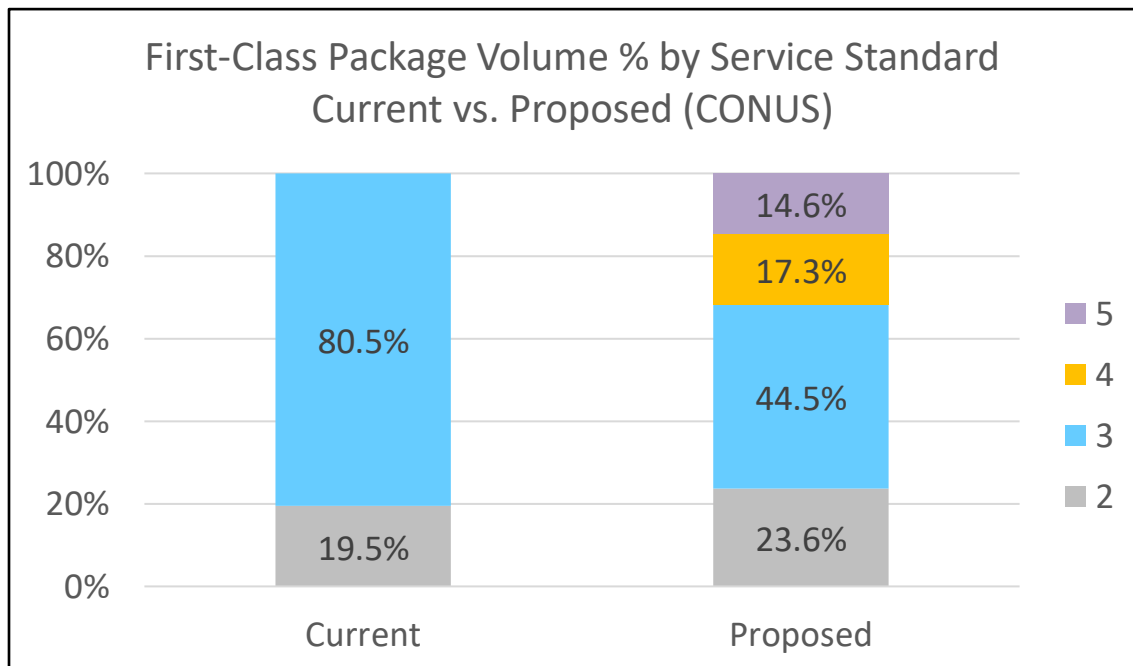
on a nationwide or substantially nationwide basis.” 39 U.S.C. § 3661(b).

Currently, the service standards for FCPS mirror those of Single-Piece First-Class Mail. The most significant revisions would change the FCPS service standards for inter-Sectional Center Facility (SCF) domestic pieces transported between certain origin Processing & Distribution Center or Facility (P&DCF) and destination SCF pairs (OD Pairs) within the contiguous United States. The Postal Service is proposing to expand the two-day service standard for FCPS to reflect the central importance of providing one-to-two-day regional delivery in today’s package marketplace. The Postal Service is also adjusting the service standards for FCPS within the contiguous United States, by narrowing the scope of the three-day standard and applying four-day and five-day standards to FCPS volume traveling longer distances between origin and destination.

Specifically, the Postal Service proposes to apply two-day service standard where the combined drivetime between origin P&DCF, destination ADC, and destination SCF is eight hours or less. A three-day service standard would apply to inter-SCF FCPS volume where the combined drive time between origin P&DCF, destination ADC, and destination SCF is more than eight hours, but does not exceed 32 hours. Where the drive time between origin P&DCF, destination ADC, and destination SCF is between 32 and 50 hours, the Postal Service proposes a four-day service standard. A five-day service standard would apply in the contiguous 48 states if the drive time between origin P&DCF, destination ADC, and destination SCF exceeds 50 hours.

The testimony of witness Stephen Hagenstein (USPS-T-1) discusses how modelling projects that current FCPS volume will be affected by the proposed changes to the service standards in the contiguous United States. The percentage of FCPS volume subject to a two-day service standard will increase from 19.5 percent to 23.6 percent. Other FCPS volume, in which the origin and destination are farther apart, will experience longer delivery times. Overall, approximately 68.1 percent of FCPS volume will receive a two- or three-day service under the proposed standards, while approximately 17.3 percent will receive four-day service, and 14.6 percent will receive five-day service. This is shown in the graph below, which is reproduced using information from witness Hagenstein's testimony.

Figure 1: FCPS Volume by Service Standard



In addition, unless a shorter service standard applies, the proposed changes would increase service standards within the non-contiguous states and certain territories by one day for certain FCPS volume. A four-day service standard would apply for FCPS volume originating in the contiguous 48 states and destined to the city of Anchorage, Alaska, the 968 3-digit ZIP Code area in Hawaii, or the 006, 007, or 009 3-digit ZIP Code areas in Puerto Rico. A four-day service standard would also apply to FCPS volume where the origin is in the 006, 007, or 009 3-digit ZIP Code areas in Puerto Rico and the destination is in the contiguous 48 states. Likewise, a four-day service standard would apply to FCPS where the origin is in Hawaii and the destination is in Guam, or vice versa; where the origin is in Hawaii and the destination is in American Samoa, or vice versa; and where both origin and destination are within Alaska. All other FCPS volume to non-contiguous United States destinations will be subject to a five-day service standard.

The model projects that, in most circumstances, pharmaceutical volume would be less impacted by the proposed service standard changes than other FCPS volume. The percentage of pharmaceutical FCPS volume projected to be subject to a two-day service standard increases, and almost all pharmaceutical volume presently subject to a two-day service standard would remain as two-day. A majority of pharmaceutical volume presently subject to a three-day service standard would remain as three-day. The model projects some pharmaceutical FCPS volume to be subject to a four-day service standard, and small percentage of pharmaceutical FCPS volume to be subject to a five-day service standard.

B. Rationale for Changes

The accompanying testimony of witness Hagenstein (USPS-T-1) describes the proposed service changes and their benefits. As he explains, the current service standards make it very difficult for the Postal Service to provide reliable and consistent service. In addition, attempting to meet the current standards results in high costs and inefficiencies in the transportation network, which is characterized by an over-reliance on air transportation and low utilization of truck capacity in long-haul surface transportation.

By allowing for additional transport time for FCPS, these changes will improve the Postal Service's consistency and reliability from a service performance perspective, as well as increase the efficiencies of the transportation network, for a number of related reasons. These changes would enable an increase in the amount of volume transported by surface and a decrease in the amount of volume transported by air for many OD Pairs; surface transportation is both more reliable and cost-effective than air transportation. These changes would also:

- enhance the Postal Service's ability to run to the operating plan and to adopt strategies to increase the efficiency of the surface transportation network;
- enable the implementation of additional initiatives in the future to further streamline and improve the processing and logistics network; and

- enable an increase in the use of more cost-effective air carriers for volume, such as those going to non-contiguous areas, that must remain in the air.

Overall, these changes will enable the Postal Service to provide the American people with more reliable and consistent service, through a more efficient network.

Witness Hagenstein (USPS-T-1) explains how the Postal Service will be able to design a more efficient, reliable, and resilient transportation network if it adopts the proposed service standards, and the modeling performed to study and validate these operational benefits. As noted above, his testimony also discusses the actual impact of the proposed changes, in terms of changes to the OD Pairs, as well as current FCPS volume. As he notes, his modeling – and the operational benefits that they project -- is based on an expanded transportation window for both FCPS and First-Class Mail, and hence on implementing the service standards being proposed in this docket with the service standards for First-Class Mail and end-to-end Periodicals being considered in Docket No. 2021-1.

Witness Foti analyzes trends in the lightweight package market and relies on market research to estimate the potential volume and contribution impact that could result from implementing these service changes (USPS-T-3). He also discusses how these changes may impact customer satisfaction, given that the changes will significantly enhance service reliability while not impairing the Postal Service's ability to remain highly price-competitive in the small package market.

Witness Foti concludes that these service changes will not have a material impact on FCPS volumes, although this expectation is conservative because there could be opportunities to increase FCPS volumes over time, as a result of improved service reliability and continued price competitiveness.

Witness Kim's testimony (USPS-T-2) discusses the overall impact of the proposed changes on the Postal Service's financial situation. She relies on the modeling testimony of witness Hagenstein to develop estimates of transportation cost savings, thus reflecting the net financial impact from the initiative. Specifically, witness Kim determines that the proposed service standard changes could generate a net improvement to postal finances of approximately \$55 million on an annual basis, when considering these modeled transportation cost savings and witness Foti's estimate that the initiative will not have a material impact on volume. This figure only considers the additional transportation savings that are generated by the expansion of the transportation window for FCPS in conjunction with First-Class Mail, as compared to the results of only expanding the transportation window for First-Class Mail and end-to-end Periodicals (as presented in Docket No. N2021-1).

Overall, these testimonies demonstrate a number of significant benefits from implementing these service standard changes. The proposed changes would enable much more reliable and consistent service for mailers. They would also result in significant cost savings as quantified by witness Kim due to the creation of a more efficient transportation network. Finally, they would enable further operational benefits in the future which are not encompassed within

witness Kim's above-quoted cost-savings figure. (With respect to transportation alone, she discusses opportunities for further savings in the range of \$77 to \$213 million.) Overall, the service standard changes are a key component of the Postal Service's 10-Year Strategic Plan, entitled *Delivering For America: Our Vision and Ten-Year Plan to Achieve Financial Sustainability and Service Excellence*. As explained in that plan, the Postal Service proposes to amend the service standards as one part of its efforts to promote the Postal Service's long-term sustainability and achieve service excellence.

III. THE INITIATIVE IS IN ACCORDANCE WITH AND CONFORMITY TO STATUTORY POLICIES

The changes to service standards proposed in this docket conform to the policies enshrined in the provisions of title 39, including the broad universal service parameters in sections 101, 403, and 3661(a).¹

The proposed service standard changes enable the Postal Service to better align its service standards with operational capabilities. The current standards require operational practices that make it very difficult for the Postal Service to provide consistent and reliable service, and which lead to high costs. By adopting these service standard changes, the Postal Service will be able to address these problems with the current standards, and provide much more consistent and reliable service for FCPS, including for volume currently subject to

¹ The Commission has opined that competitive products are within the ambit of the universal service obligation. Postal Regulatory Comm'n, Report on Universal Postal Service & the Postal Monopoly (2008), at 25.

the 3-day standard within the contiguous United States. The Postal Service will also be able to create a more efficient transportation network.

In addition, even with these changes, most FCPS volume would continue to have the same service standard, and most FCPS volume would continue to have a service standard of 3 days or less. The Postal Service will also expand the scope of 2-day volume, and hence the amount of volume subject to that standard.

Therefore, these adjusted standards better achieve relevant policy objectives than the existing standards. The adjustments will improve service reliability, while still continuing to reasonably assure customers wishing to send lightweight packages at lower rates compared to other package products of delivery speed. For those customers who need faster delivery than would be provided under these standards, Priority Mail Express and Priority Mail – products within the Postal Service’s overall package portfolio that offer a different balance of speed and cost -- would continue to be available. By increasing service capability, reducing transportation costs and enabling other enhancements to operations to account for changing market, fiscal, and operational realities, the adjusted service standards are more consistent with best business practices, and with the maintenance of affordable rates. It also supports the Postal Service’s long-term sustainability, and hence its ability to continue to provide universal mail and package delivery, and to preserve regular and effective access in all communities. Overall, all of these considerations

demonstrate that the adjusted standards would enhance the value of postal services for both senders and recipients.

With these adjustments, the Postal Service will continue to achieve the broader policies of title 39. With the benefits provided by these adjusted standards, the Postal Service will continue to be effective in binding the nation together and providing prompt, reliable, and efficient services, as prescribed by section 101(a). Access will continue to be effective and regular, within the meaning of sections 101(b). Consistent with sections 403(a) and 3661(a), the resulting service will be provided adequately and more efficiently, for the reasons discussed by witness Hagenstein.

Moreover, in selecting the modes of transportation, the service standard changes allow the Postal Service to continue satisfying the requirements of section 101(f) by giving the highest consideration to the prompt and economical delivery of mail. The service standard changes would also enable modern methods of transporting mail by containerization, as the changes would allow the Postal Service to directly containerize trays into working STC-containers or direct containers where volume warrants.

Lastly, the proposed changes would not impair compliance with the policies of section 3633 regarding the financial performance of competitive products. As a competitive product, FCPS would still maintain revenues that cover its attributable costs, as required by section 3633(a)(2). Likewise, with respect to the other provisions of section 3633, there is no increased risk of cross-subsidization of competitive products by market dominant products, or any

diminishment in the expected ability of competitive products collectively to cover an appropriate share of the Postal Service's institutional costs.

IV. CONCLUSION

Responsible management of the national postal system requires the pursuit of various service objectives in an efficient and economical manner. Postal Service costs continue to significantly exceed revenues, and the Postal Service must pursue additional efforts to improve its efficiency in order to ensure long-term financial sustainability. In addition, the Postal Service has struggled to meet the established service performance targets under the current standards and must adopt measures to improve the predictability and reliability of service, in a manner that also reflects the efficient and economical use of resources.

The statutory scheme governing the operation of the Postal Service permits rational adaptations of service standards to market, fiscal, and operational realities, while still fulfilling its public service obligations. In order to remain viable and relevant, the Postal Service must implement operational and service changes consonant with realistic expectations balanced against the public's needs.

Therefore, in accordance with 39 U.S.C. § 3661 and 39 C.F.R. §§ 3020.101 *et seq.*, based upon the testimony and materials otherwise reflected in the record of this proceeding, the Postal Service requests that the Commission issue an advisory opinion to the effect that the change in service standards for First-Class Package Service between certain OD Pairs and to and from certain

off-shore destinations conforms to the policies in title 39, United States Code.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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